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FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 7110
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHJO/AMCONSUL JOHANNESBURG 8835
RUEHTN/AMCONSUL CAPE TOWN 6490
RUEH DU/AMCONSUL DURBAN 0615

UNCLAS SECTION 01 OF 03 PRETORIA 000136

DEPT FOR AF/S/; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR TRINA RAND
USTR FOR JACKSON

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)
PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER JANUARY 23,
2009 ISSUE

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¶1. (U) Summary. This is Volume 9, issue 4 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Manuel: First Wave of Unemployment Being Seen in Africa
- Retail Nosedive Raises Clamor for Big Rate Cut
- Tata Increases Stake in Neotel
- Fitch Downgrades ACSA
- ICASA Awards Licenses to Altech
- Westinghouse to Open Office in Cape Town
- Eskom Pursues Development in 2009
- DWAF Takes Steps to Avoid Water Supply Shortage

End Summary.

Manuel: First Wave of Unemployment Being Seen in Africa

¶2. (U) The first wave of unemployment is being seen in Africa as many foreign direct investors scale back or shut down their operations, remarked Finance Minister Trevor Manuel at the first-ever meeting of the African "Committee of 10" (a group of five Finance Ministers and five Central Bank governors organized under the auspices of the African Union). Speaking in Cape Town, Manuel observed that African states are encountering significant fiscal pressures as their revenue sources dry up, expenditures rise to meet the most elementary levels of service provision, and they battle to retain expenditure levels in the face of "significantly reduced GDP growth." Manuel remarked, "We are witnessing that the export markets developed with enormous sacrifice are suddenly closed to imports from our countries, as a result of falling consumer demand and increased protectionism ... we are living through intense liquidity pressures as our domestic banking sector battles to secure the finance to on-lend. Many countries are witnessing the drying up of remittance flows which have, over the past number of years, been a reliable source of finance which offsets impact to the skills drain." Manuel also noted that the mainstays of recent developments in sectors such as tourism are already in decline, and that Africa has not yet recovered from the severe impact of high food and fuel prices that the continent has lived through over the past 15 months. (Business Times, January 16, 2009)

Retail Nosedive Raises Clamor for Big Rate Cut

¶3. (U) Statistics South Africa figures showed retail sales tumbled 4% in November, falling for the seventh successive month. This poor performance backs the case for more interest rate cuts to boost the flagging economy and help shield it from the global recession. Sales of durable goods, which are hardest hit by high interest rates, decreased by 8.4% y/y in November. News that the South African Reserve Bank (SARB) had brought its monetary policy committee meeting next month forward by a week to avoid clashing with the national budget fanned speculation SARB may cut rates more aggressively than usual. Local markets have priced in a cumulative four percentage point fall in local lending rates this year, after SARB began its easing cycle last month with a half-percentage-point cut. Consumer spending is not expected to improve in the next few months as fears of job losses compound the burden of steep debt costs and slowing income growth. (Business Day, January 22, 2009)

Tata Increases Stake in Neotel

¶4. (U) State-owned Eskom and Transnet agreed to sell their combined 30% stake in telecoms operator Neotel to Bombay-listed Tata Communications. Tata has owned a 26% stake in Neotel since 2001. Neotel CEO Ajay Pandey commented that the sale would strengthen Neotel's position as a stable player in the local market and allow Neotel to capitalize on Tata's vast international network. Pandey was encouraged that a global telecoms giant was investing in South Africa and Neotel in particular, given the economic climate. "Such transactions reinforce international investors' confidence in the country and more specifically in South Africa's telecommunications

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mark," he noted. Neotel's other shareholders are the black empowerment group Nexus (with 19%) and CommuniTel and Two Telecom Consortium (12.5% each). (Business Day, January 20, 2009)

Fitch Downgrades ACSA

¶5. (U) Fitch Ratings (Fitch) downgraded the national long-term rating of Airports Company South Africa (ACSA) from AA to AA-, saying that rising capital spending and a decline in passenger numbers would increase ACSA's use of borrowed money beyond levels considered proper for its previous rating. Fitch affirmed ACSA's short-term rating at F1+. The ratings take into account ACSA's prospective, rather than existing, leverage. ACSA's planned capital expenditure spend from 2008 to 2012 totals R17.8 billion (\$1.6 billion). Fitch explained, "ACSA's current regulatory regime does not remunerate capital expenditure until it is completed and operational. Thus, the substantial capital expenditure is a burden upon the group's financial profile." Near- and long-term passenger forecasts, current capacity constraints, and the 2010 World Cup tournament require ACSA to expand at all of its airports. Funding requirements for the capital expenditure program were expected to peak in the 2010 financial year. (Engineering News, January 20, 2009)

ICASA Awards Licenses to Altech

¶6. (U) JSE-listed Allied Technologies (Altech) has been granted electronic communications network service (I-ECNS) and electronic communications service (I-ECS) licenses by the Independent Communications Authority of South Africa (ICASA). "The issuance of the licenses is not only a victory for Altech, but also for the South African telecommunications industry as a whole. We eagerly look forward to participating in the new competitive environment that will result," remarked Altech CEO Craig Venter. The licenses

were granted after Altech successfully opposed the government's legal appeal against a judgment that Altech and about 300 other value-added network services (VANS) could build their own telecommunications networks. The Pretoria High Court ruled the company was entitled to convert its existing Value Added Network Service (VANS) license to an I-ECNS license. (Engineering News, January 20, 2009)

Westinghouse to Open Office in Cape Town

17. (U) International electrical company Westinghouse plans to open a branch in Cape Town to deal with to the increased demand for nuclear energy and business growth resulting from its relationship with State-owned power utility Eskom. The office would supply Eskom's Koeberg nuclear power station with technology, integrated services, and fuel solutions. Westinghouse Vice President for Engineering Services for Component and Global Plant Engineering Tim Collier remarked that the establishment of the Cape Town office solidified the Westinghouse commitment to South Africa and to Eskom by providing direct local support for continued successful operation of the Koeberg power station. (Engineering News, January 21, 2009)

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Eskom Pursues Development in 2009

18. (U) This year Eskom plans to pursue an aggressive planning and development schedule for a third new-generation coal-fired power station as well as other base-load projects, including nuclear, despite a marked slowdown in demand. Eskom Chief Generation Officer Brian Dames remarked that Eskom is also prioritizing the independent power producer program as part of a plan to close future supply-side gaps. Dames stressed that Eskom would continue to pursue all of its current projects except for the Nuclear 1 and the R19 billion (\$1.9 billion) second pumped storage project in Limpopo. Eskom assumes there will be "marginal to zero" growth for 2009. Dames indicated that growth in 2010 could also well be flat to modest, but noted

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that "because future demand is so unclear, we need to continue with our project development work. We need to identify the next coalfield - do the design, find a site and move through all the environmental and regulatory project development phases." Dames affirmed that Eskom would continue to advance its nuclear program and would seek to firm up site selection, environmental clearances and future government support. (Engineering News, January 20, 2009)

DWAF Takes Steps to Avoid
Water Supply Shortage

19. (U) Department of Water Affairs and Forestry (DWAF) Minister Lindiwe Hendricks announced the government's plan to avoid a potential water shortage on the Vaal river system, which supplies about 40% of South Africa's population with water. Government officials worry that demand for water from the river system will outstrip supply by 2013 unless the government diversifies its water supply, prevents pollution, and stops water theft. The DWAF plans to spend R7.3 billion (\$709 million) to build a dam to increase the amount of water in the Vaal river system mix. The government has earmarked R550 million (\$55 million) to improve sewage treatment plants on the Vaal river system. The government also plans to prosecute farmers who allegedly divert as much as 180 million cubic liters of water per year. (Engineering News, January 19, 2009)